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PSERS

Partners for your Future

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA
Chief Investment Officer

Investment Overview

Authority and Fiduciary Standard

The Board has the responsibility to invest funds of the System in accordance with guidelines and limitations set forth in the Code and other applicable state law. As fiduciaries, the members of the Board and Staff must act solely in the interests of the members of the System and for the exclusive benefit of the System's members. In performance of their duties, the members of the Board and Staff delegated with investment authority shall be held to the Prudent Investor Standard.

The Prudent Investor Standard, as articulated in the Code, means "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital."

The Prudent Investor Standard requires a trustee to act prudently and with caution, discretion, loyalty, and care but does not restrict the assets in which the Board can invest. Under the Prudent Investor Standard, which recognizes modern portfolio theory, the Board's investment and management decisions with respect to individual assets shall be considered in the context of the portfolio as a whole and as part of an overall investment strategy, and not in isolation. No specific investment or course of action, taken alone, shall be considered inherently prudent or imprudent. This Standard recognizes the trade-off between risk and return.

Policies and Objectives

The Board is responsible for the formulation of investment policies for the System. The overall investment objectives of the System are as follows:

Return Objectives – the overall return objective is to realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis. Funding adequacy is achieved when the actuarial market value of assets is at least equal to the System's projected benefit obligations. The System has a return objective of meeting or exceeding the targeted actuarial rate of return (currently 8.0%) over the long-term. In addition, the Board has the following broad objectives:

1. The assets of the System shall be invested to maximize the returns for the level of risk taken; and,
2. The System shall strive to achieve a return that exceeds the Policy Index (the Policy Index, which is based on the Board-established asset allocation structure, is a custom benchmark designed to generate a return that meets the actuarial rate of return assumption).

Risk Objectives

1. The assets of the System shall be diversified to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location. Failure to do so could impair the System's ability to achieve its funding and long-term investment goals and objectives; and,
2. The System's assets shall be invested so that the probability of investment losses (as measured by the Policy Index) in excess of 15% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

To achieve these objectives, the Board meets during the first quarter of the calendar year to review the overall asset allocation plan and investment policies for the System. Implementation of investment policies is accomplished through the use of external investment management firms who act as agents for the System and through the use of internal investment managers. The Board also retains various investment consultants to assist with the formulation and implementation of investment policies.

Operations

The Board provides oversight of investment activities through the Finance Committee that makes recommendations to the Board. The Finance Committee generally conducts seven meetings per year and may meet more frequently as needed. Investment Office staff, as well as external investment advisors and Investment Accounting staff, assist the Board in achieving investment objectives and monitoring compliance with investment policies. For the fiscal year ended June 30, 2010, Wilshire Associates Incorporated (Wilshire) served as the general investment consultant to assist the Board in formalizing investment objectives, establishing an asset allocation plan, conducting investment advisor searches, reviewing performance, and commenting on compliance with investment policies. In addition, the Board utilized Aksia LLC as an absolute return consultant, Courtland Partners, Ltd. as a real estate consultant, and Portfolio Advisors, LLC as an alternative investment consultant. Alternative investments generally consist of investments in private debt, private equity, and venture capital limited partnerships. Investment Office staff implement the investment decisions within the Investment Policy Statement, Objectives and Guidelines regarding asset allocation, security selection, and other objectives directed by the Board.

The Board employs both external investment management firms and internal investment managers to manage the investment portfolio of the System. At fiscal year end, 43 external public market investment management firms were managing $16.3 billion in assets of the System, $14.3 billion in assets were managed by the System's internal investment managers, and the remaining $15.9 billion in assets were managed by numerous emerging, alternative investment, and real estate managers. The performance of each external investment management firm and each internal manager is monitored quarterly against a pre-established benchmark as well as the performance of its peer group.

Asset Allocation

The Board reviews the long-term asset allocation targets of the System during the first quarter of each calendar year. The Board will consult with its actuary, consultants, Investment Office staff, and other sources of information it deems appropriate in formulating the asset allocation plan. The Board believes that the level of risk assumed by the System is largely determined by the Board's strategic asset allocation plan. The Board, in determining its long-term asset allocation, shall take the following factors into consideration:

- The System's investment time horizon;
- The demographics of the plan participants and beneficiaries;
- The cash flow requirements of the System;
- The actuarial assumptions approved by the Board;
- The funded status of the System;
- The Board's willingness and ability to take risk; and,
- The employers' (Commonwealth and school districts) financial strength.

In establishing the asset allocation for the System, the Board considers capital market expectations for expected return, volatility, and asset class correlations as prepared by its general investment consultant. The current long-term, top-down asset allocation targets of the Board are discussed in the following paragraphs.

The long-term target allocation as of June 30, 2010 included an equity target allocation of 28.6% consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (12.5%) and non-U.S. equity exposure (16.1%). Within the U.S. equity target, the portfolios are diversified between large, small, and micro capitalization investment managers, and growth and value investment managers. The non-U.S. equity exposure includes both developed and emerging markets portfolios as well as large and small capitalization investment managers.

The fixed income target allocation of 27.9% consisted of U.S. core fixed income exposure (5.0%), leveraged Treasury Inflation-Protected Securities exposure (5.0%), high yield and opportunistic fixed income exposure (8.0%), emerging markets fixed income exposure (2.9%), global fixed income exposure (2.0%), and cash (5.0%). Historically, PSERS had an allocation of 0.0% to cash, however, given the known and potential cash flow requirements of the System, the Board, Staff, and Wilshire deemed it prudent to have an allocation to this asset class. Within these categories, all sectors of the bond market are represented.

The real estate target allocation of 8.0% consisted primarily of limited partnerships. The types of partnerships the System invests in include core, value-added, and opportunistic real estate limited partnerships.

Alternative investments had a target allocation of 20.5%. The primary vehicle used to invest funds in this asset class is the limited partnership. The partnerships are established by individual management groups that have been selected by the System for the purpose of investing in and managing private equity, venture capital, and unlisted subordinated debt positions on behalf of PSERS and other limited partners.

The absolute return target allocation of 10.0% consisted primarily of investment managers retained by the System to generate positive returns over time independent of how the equity, fixed income, and commodity markets perform. Strategies implemented to achieve this target include, but are not limited to, global macro, currency, and relative value strategies such as equity long/short. The absolute return program is included in the allocation to generate returns equal to or greater than the targeted actuarial rate of return of 8.0% and to diversify the System's total portfolio risk.

The commodities target allocation of 5.0% consisted primarily of commodity futures and commodity and commodity-related publicly traded stocks. Commodities are included in the allocation to diversify the System's total portfolio risk.

Investment Results

As of June 30, 2010, the fair value of the investment portfolio was $46.5 billion, an increase of $3.2 billion from last year's value. This increase was due to net investment income ($6.1 billion) less the deductions for benefits and administrative expenses exceeding member and employer contributions ($3.5 billion) plus net changes in other investment assets and liabilities ($0.6 billion). The investment portfolio, as invested, was composed of 28.4% common and preferred stocks (equity), 27.2% fixed income investments, 20.4% alternative investments, 9.1% real estate, 11.2% absolute return portfolios, and 3.7% commodities at June 30, 2010. The table immediately following the Investment Overview illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percentage of the total investment portfolio.

The past fiscal year saw a rebound in U.S. economic activity from the significant economic contraction during the 2008-2009 fiscal year. The U.S. Gross Domestic Product (GDP) increased by 1.6%, 5.0%, 3.7%, and 1.7% in the third quarter 2009, fourth quarter 2009, first quarter 2010, and second quarter 2010, respectively. The official U.S. unemployment rate (otherwise known as the U3 unemployment rate) hit a cyclical high of 10.1% in October 2009 but is unchanged from the end of the previous fiscal year at 9.5%. The more encompassing U6 unemployment rate, however, which measures not only people without work seeking full-time employment (U3 unemployment rate) but also counts "marginally attached workers and those working part-time for economic reasons," remains elevated at 16.5% as of fiscal year end, unchanged from the end of last fiscal year. This past year saw a lot of tail winds for the U.S. economy, including a massive fiscal stimulus program and a strong inventory build by companies, both of which contributed significantly to the GDP figures noted above.

Internationally, the economic conditions are really a tale of two markets. The emerging markets, such as China and India, have weathered the downturn well and their economic activity has bounced back to new highs. Conditions have been strong enough that a number of these countries needed to tighten their monetary policies to keep their economies from overheating. The developed markets, such as the United Kingdom and France, have not bounced back nearly as much. These markets continue to have very loose monetary policies due to weaker economic conditions. In general, the emerging market economies are less burdened by debt than the developed world. This scenario was highlighted in the final quarter of the fiscal year when countries such as Portugal, Ireland, Greece, and Spain suffered through a sovereign debt crisis which ultimately required the European Union to agree on a €750 billion bailout plan that would be available to rescue euro-zone economies that get into financial troubles. As part of these bailout plans, the countries receiving financial aid would be required to implement austerity measures which will require either increases in taxes or decreases in government spending, both of which will have a negative impact on growth in those countries. It is expected that the growth will continue to weaken in the developed markets over the next few years as they work to reduce their debts to more sustainable levels.

There is concern that the U.S. economic rebound which started last year may not be sustainable without considerable additional fiscal and monetary stimulus. The deceleration in U.S. GDP growth over the past two quarters calls into question the durability of this recovery that has been supported by massive deficit spending, inventory rebuilding after the slowdown, and low interest rates. The National Bureau of Economic Research (NBER), a private, nonprofit, nonpartisan research organization dedicated to promoting a greater understanding of how the economy works, is the organization that reviews relevant economic indicators and announces when they believe economic expansions and contractions begin and end. NBER recently announced that this current economic contraction began in December 2007 and officially ended in June 2009. NBER, however, noted in their press release that "the committee did not conclude that economic conditions since that month (June 2009) have been favorable or that the economy has returned to normal operating capacity."

While corporations have done a good job of improving their balance sheets, the consumer, which represents about 70% of the U.S. economy, still has a significant amount of consumer and mortgage debt. The U.S. Federal Reserve (the Fed) has already lowered the Federal Funds rate to 0.00% and has no further room to ease monetary policy through interest rate cuts. This position leaves the Fed with less conventional monetary stimulus tools such as quantitative easing which are blunter and less proven monetary tools than interest rate cuts. The U.S. unemployment rate remains elevated and consumer income is not growing quickly. Consumer confidence, as measured by the University of Michigan Survey of Consumer Confidence Sentiment, remains near levels normally seen in recessionary periods. The U.S. federal deficit has grown significantly over the past few years in an effort to support the waning economy. The only ways to bring federal deficits under control are to cut spending or raise taxes, both of which will take money out of consumers' pockets. These represent significant headwinds to consumer spending and growth in the U.S. which could remain in place for a considerable period of time. With short-term interest rates anchored at 0.00%, we anticipate that we will be in a low asset return environment for the foreseeable future, providing further headwinds to income growth.

With the backing of monetary and fiscal stimulus during the past fiscal year, we saw a significant rally in risk assets worldwide which led to positive returns in most asset classes. The Morgan Stanley Capital International (MSCI) U.S. Broad Market Index, a U.S. equity index, returned 14.06% during the fiscal year. Returns for the first three quarters of the fiscal year were exceptionally strong, posting a 30.08% return before declining 11.86% in the fiscal fourth quarter as it had become apparent that the economy was slowing. Foreign markets in U.S. dollar terms also fared well as the MSCI All-Country World (ACW) ex. U.S. Investable Market Index, an international equity index, returned 11.49% for the fiscal year. The Venture Economics median return, a benchmark for alternative investments that represents the median performance of the venture capital/private equity industry listed in the Investment Benchmark Reports on Venture Capital and Buy-outs produced by Venture Economics, returned 12.85% during the fiscal year as these investments were written up to prices comparable to gains in the public equity markets.

Fixed income markets performed very well in this environment as longer-term interest rates fell and investors looked to take advantage of wide credit spreads in search of yield. For the fiscal year, the Barclays U.S. Universal Index, a U.S. fixed income index, was up 10.59% and the Barclays Multiverse Index, a global fixed income index, was up 5.54%. Returns in both of these indexes were driven by a flattening yield curve, falling inflation expectations due to the economic contraction, and tightening credit spreads. Where the tightening of credit spreads really had an impact was on lower quality credits. The Barclays High Yield Index returned 26.77% during the past fiscal year. The Barclays U.S. TIPS Index, an index of U.S. treasury inflation protection securities, driven by falling real yields, returned 9.52% for the fiscal year.

According to the National Council of Real Estate Investment Fiduciaries (NCREIF) Index, a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only, real estate returned -9.60% during the past fiscal year. Index returns are reported on a quarter lag due to the time taken to acquire this information from private market sources, so the returns are for the twelve months ended March 31, 2010. Investment performance in the private real estate markets remained weak due to an excess of commercial real estate supply due to the significant contraction in the economy since the end of 2007. The index returns, however, have recently stabilized and have shown positive performance during the past quarter.

As a result of strong returns from global equities, alternative investments, fixed income, and the absolute return program, the System generated a total return of 14.59% for the one-year period ended June 30, 2010. This return exceeded the total fund Policy Index return of 10.87% by 372 basis points. Annualized total returns for the three-, five-, and ten-year periods ended June 30, 2010 were -6.48%, 2.99%, and 3.51%, respectively. The three-year return ending June 30, 2010 fell short of the total fund Policy Index return by 171 basis points while the five- and ten-year returns ending June 30, 2010 exceeded the total fund Policy Index returns by 24 and 91 basis points, respectively.

Wilshire calculates the total investment return of the System as well as the performance of each external investment management firm and each internal investment manager employed by the Board to invest the System's assets. Performance is calculated using a time-weighted return methodology.

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The following table provides the System's total investment return for each major asset class and the total portfolio, including, where applicable and available, respective benchmark indexes used by asset class and median performance by asset class:

	Annualized Total Returns (%) Net of Fees Ended June 30, 2010			
	1 Year	**3 Years**	**5 Years**	**10 Years**
PSERS Total Portfolio	**14.59**	**-6.48**	**2.99**	**3.51**
Total Fund Policy Index	10.87	-4.77	2.75	2.60
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	14.06	-4.89	2.81	3.13
PSERS Domestic Stock Portfolios	**18.29**	**-10.36**	**-1.03**	**0.19**
Domestic Equity Policy Index (1)	15.20	-9.52	-0.39	-0.83
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	16.48	-9.42	-0.39	-0.38
PSERS International Stock Portfolios	**15.07**	**-8.22**	**5.84**	**3.58**
International Equity Policy Index (2)	11.49	-9.45	4.20	2.47
Median Public DBP Fund Universe - International Equities (Wilshire Database)	11.62	-12.38	1.94	1.83
PSERS Domestic Fixed Income Portfolios	**21.43**	**9.01**	**6.53**	**7.45**
Domestic Fixed Income Policy Index (3)	16.97	10.24	6.96	7.25
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	15.39	7.00	5.68	6.64
PSERS Global Fixed Income Portfolios	**14.43**	**8.33**	**6.12**	**7.22**
Global Fixed Income Policy Index (4)	4.89	6.52	4.88	6.26
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	14.43	7.28	5.56	6.87
PSERS Commodity Portfolios	**5.93**	**-7.81**	**N/A**	**N/A**
Dow Jones - UBS Commodity Index	2.75	-8.36	N/A	N/A
PSERS Absolute Return Portfolios	**15.60**	**N/A**	**N/A**	**N/A**
Benchmark - 8.0% Annualized Return	8.00	N/A	N/A	N/A
PSERS Real Estate (5)	**-18.01**	**-22.84**	**-3.02**	**4.91**
Blended Real Estate Index (6)	-9.60	-4.32	4.19	7.13
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	-2.58	-12.28	-0.36	6.81
PSERS Alternative Investments (5)	**22.39**	**1.99**	**12.05**	**7.00**
Venture Economics Median Return, Vintage Year Weighted	12.85	1.39	5.78	2.53
Median Public DBP Fund Universe - Private Equity (Wilshire Database)	23.82	1.46	11.93	6.00

1) MSCI USA Investable Market Index effective April 1, 2009; previously was the Dow Jones Wilshire 5000 Index.

2) MSCI All Country World (ACW) ex. USA Investable Market Index effective July 1, 2008; previously was the MSCI ACW ex. U.S. Index. The benchmark was 30% hedged to the U.S. dollar from July 1, 2006 to March 31, 2009; otherwise, the benchmark is unhedged.

3) Returns presented are a blend of the Barclays Capital U.S. Universal Index (27.8%), Barclays Capital U.S. TIPS Index (Series-L) (27.8%), and Barclays U.S. High Yield Index (44.4%) effective April 1, 2010. The weights to these indexes have varied in previous quarters. Prior to April 1, 2007, the Barclays Capital Aggregate Bond Index was used in place of the Barclays Capital U.S. Universal Index.

4) Returns presented are a blend of the Barclays Multiverse Index (40.8%) and the JP Morgan Global Bond Index Emerging Markets Global Diversified (USD Unhedged) Index (59.2%) Between April 1, 2007 and March 31, 2010, the Barclays Multiverse Index was used; previous to April 1, 2007, the Barclays Global Aggregate Bond Index was used.

5) Returns reported on a one-quarter lag, except for publicly traded real estate security investments.

6) NCREIF Index effective April 1, 2010. The NCREIF Index is reported on a one-quarter lag. Previously, returns presented were a blend of the FTSE EPRA/NAREIT Global Real Estate Index and the NCREIF Index. Prior to October 1, 2007, the Dow Jones Wilshire Real Estate Securities Index was used in place of the FTSE EPRA/NAREIT Global Real Estate Index.

The System also is involved in a securities lending program administered by The Bank of New York Mellon Corporation. This program is designed to provide incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for either cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated $8.5 million in net gains during the year.

Accomplishments

The System continued its efforts to diversify its market exposures during the first quarter of FY 2010 as the allocation to absolute return mandates, an asset class used as a risk diversifier added during the current fiscal year, was fully funded after increasing the target allocation from 7.5% to 10.0%.

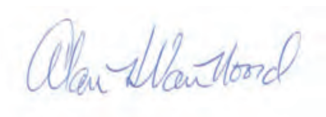
The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In early FY 2011, the real estate and private market investment portfolios were converted to the System's internal accounting software provided by Financial Control Systems, Inc. The System also continued to develop various management reports using the internal accounting software.

Market Update

Subsequent to the close of FY 2010, the equity markets commenced on a broad rally that started in July 2010 as risk assets rallied on the potential for additional quantitative easing from the Fed. The potential for quantitative easing also caused the U.S. dollar to weaken versus most other foreign currencies on the prospects that the Fed would be printing additional money causing the U.S. dollar to be worth less to foreign investors. As measured by the U.S. Dollar Index, an index which averages the exchange rate between the U.S. dollar and six major world currencies, the value of the U.S. dollar fell by 8.49% during the quarter ended September 30, 2010. For the quarter ended September 30, 2010, the MSCI U.S. Broad Market Index was up 11.10% while the MSCI ACW ex. USA Investable Market Index was up 16.80%. Fixed income markets also performed well as credit spreads continued to narrow and interest rates remained low. The Barclays U.S. Universal Index was up 2.89% during the quarter, the Barclays U.S. High Yield Index was up 6.71%, and the Barclays Multiverse Index was up 7.37%. Commodities also had a positive return for the quarter as the Dow Jones – UBS Commodity index was up 11.61%. The System's assets increased by over $2 billion during the quarter ended September 30, 2010 as a result of positive investment performance offset partially by benefit payments in excess of member and employer contributions. The estimated return for the quarter was approximately 7.50%.

Summary

The System had a very good fiscal year ended June 30, 2010 after two consecutive fiscal years with negative total returns. The economy and the markets experienced a significant rebound from the lows encountered during the prior fiscal year. Most risk assets across the spectrum performed well, allowing the System to generate returns substantially in excess of the actuarial investment rate of return assumption of 8.0%. The System, however, was unable to meet or exceed this assumption for the three-, five-, and ten-year periods ended June 30, 2010. We continue to believe that we are in the midst of a challenging period for asset returns for the reasons discussed above; however, we also believe that the System's asset allocation is structured to generate a long-term return that meets or exceeds the targeted actuarial rate of return assumption of the System.



Alan H. Van Noord, CFA
Chief Investment Officer

Portfolio Summary Statistics
Asset Allocation
As of June 30, 2010

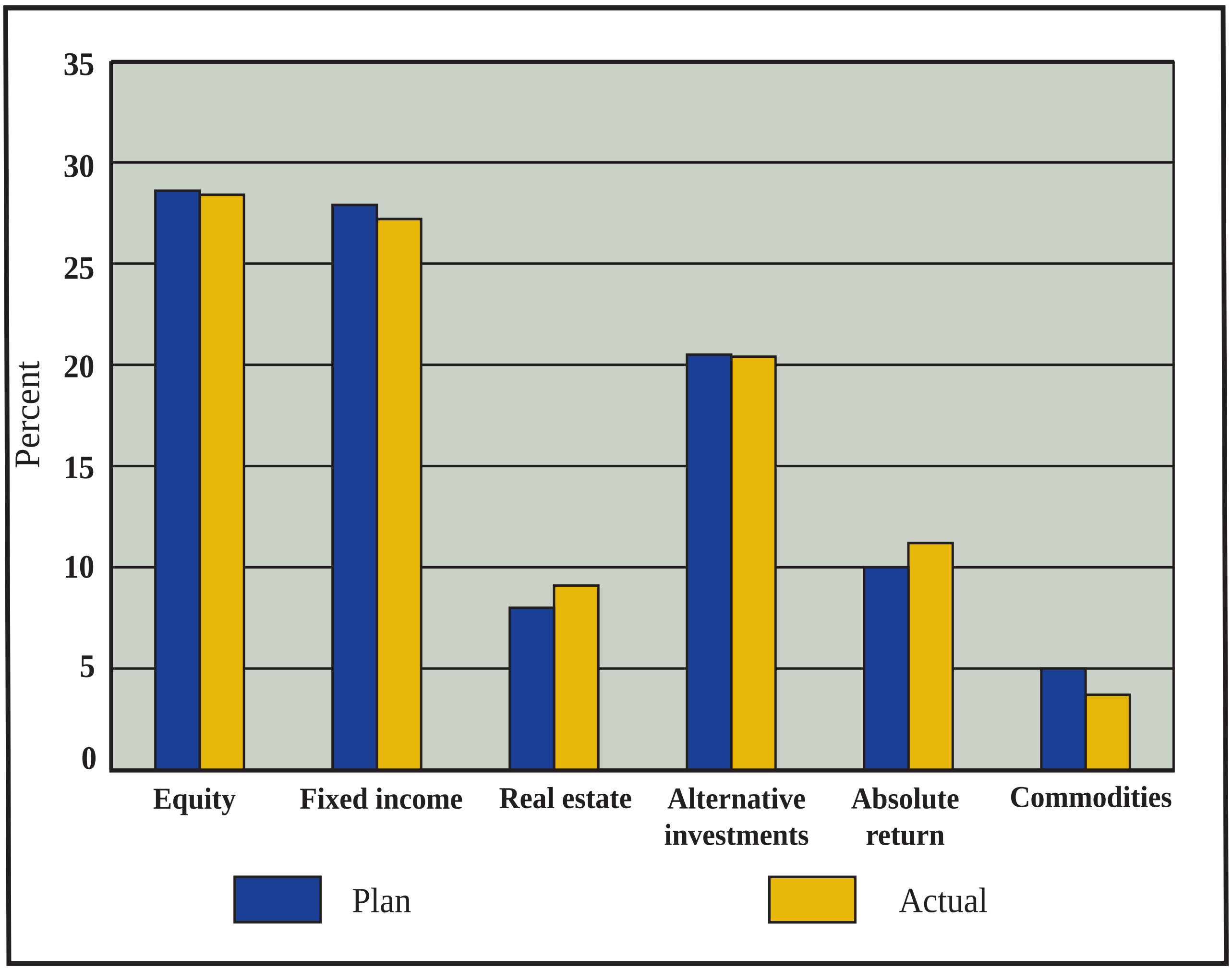
(Dollar Amounts in Thousands)

Pension investments		Fair Value ($)	% Fair Value
Common and preferred stock (Equity):			
Large cap stocks	$	3,492,153	7.6%
Mid and small cap stocks		1,718,720	3.8%
Emerging markets stocks		2,189,564	4.8%
Total Non-U.S. equity		**7,400,437**	**16.2%**
Large cap stocks		3,087,743	6.7%
Mid and small cap stocks		2,195,506	4.8%
Microcap stocks		298,635	0.7%
Total U.S. equity		**5,581,884**	**12.2%**
Total Common and preferred stock - Asset Allocation Basis		**12,982,321**	**28.4%**
Fixed income:			
Investment grade fixed income		5,265,818	11.5%
High yield and opportunistic fixed income		2,757,937	6.0%
Total U.S. Fixed income		**8,023,755**	**17.5%**
Non-U.S. core fixed income		989,693	2.2%
Emerging markets fixed income		667,666	1.4%
Total Non-U.S. Fixed income		**1,657,359**	**3.6%**
Cash and cash equivalents		**2,785,638**	**6.1%**
Total Fixed income - Asset Allocation Basis		**12,466,752**	**27.2%**
Real estate		**4,183,829**	**9.1%**
Alternative investments:			
Private equity		6,124,452	13.4%
Private debt		2,446,586	5.3%
Venture capital		768,678	1.7%
Total Alternative investments - Asset Allocation Basis		**9,339,716**	**20.4%**
Absolute return		**5,126,872**	**11.2%**
Commodities		**1,679,291**	**3.7%**
Total Pension investments - Asset Allocation Basis	**$**	**45,778,781**	**100.0%**
Net Asset Allocation Adjustment*		503,203	
Pension investments per Statement of Plan Net Assets	**$**	**46,281,984**	
Postemployment Healthcare investments	**$**	**222,284**	**100.0%**

* Includes reclassifications of certain investments between asset classes and investment receivables\payables to adjust the Statement of Plan Net Assets classification to the basis used to measure Asset Allocation. See the table and graph which follow.

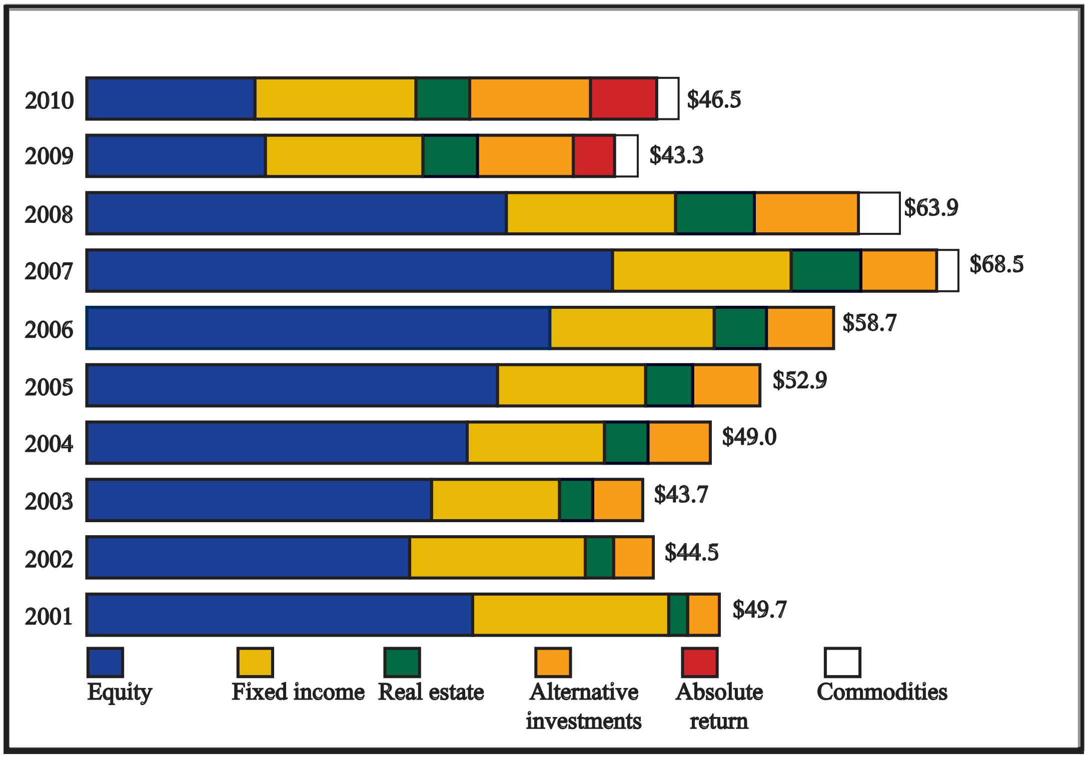
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2010

Asset Category	Plan	Actual
Common and preferred stock (Equity)	28.6%	28.4%
Fixed income	27.9%	27.2%
Real estate	8.0%	9.1%
Alternative investments	20.5%	20.4%
Absolute return	10.0%	11.2%
Commodities	5.0%	3.7%
Total	100.0%	100.0%



Portfolio Distribution 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



The following lists of portfolio detail statistics present the ten largest holdings by descending order of fair value for the largest asset classes. Information on the complete holdings of the System is available by writing to the Public School Employees' Retirement System, Press Secretary, P. O. Box 125, Harrisburg, PA 17108.

Common and Preferred Stock - Non-U.S. Equity

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2010

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Nestle SA	1,529	73,992
BHP Billiton Ltd.	2,543	72,449
HSBC Holdings PLC	5,575	56,161
Royal Dutch Shell PLC	2,091	52,244
Roche Holding AG	320	44,257
Vodafone Group PLC	21,222	44,168
Novartis AG	766	37,361
British American Tobacco PLC	1,105	35,300
Siemens AG	375	34,040
BP PLC	6,701	31,963
Total of 10 Largest Holdings		**481,935**
Total Non-U.S. Equity - Asset Allocation Basis		**7,400,437**

Common and Preferred Stock - U.S. Equity
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2010
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Security Capital Preferred Growth	16,299	194,914
Exxon Mobil Corporation	1,984	113,222
Apple Computer, Inc.	368	92,613
Microsoft Corporation	3,074	70,740
Procter & Gamble Company	1,149	68,896
Johnson & Johnson	1,085	64,105
IBM	502	61,926
General Electric Company	4,113	59,309
JP Morgan Chase & Company	1,554	56,901
Bank of America Corporation	3,888	55,871
Total of 10 Largest Holdings		**838,497**
Total U.S. Equity - Asset Allocation Basis		**5,581,884**

Fixed Income
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2010
(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value($) or No. of Shares	Fair Value ($)
BlackRock US Extended Core Global Alpha Fund	N/A	N/A	501	651,739
Bridgewater Int’l Inflation-Linked Bond Fund	N/A	N/A	341	462,015
Bridgewater U.S. Inflation-Linked Bond Fund	N/A	N/A	238	305,999
Bridgewater Pure Alpha Fund II Ltd.	N/A	N/A	174	288,254
U.S. Treasury - Inflation Index	01/15/25	2.375	174,296	193,347
U.S. Treasury - Inflation Index	01/15/16	2.000	115,326	124,417
U.S. Treasury - Inflation Index	01/15/26	2.000	104,342	110,334
U.S. Treasury - Inflation Index	01/15/20	1.375	87,200	89,291
U.S. Treasury - Notes	08/15/19	3.625	77,050	81,474
U.S. Treasury - Inflation Index	07/15/16	2.500	64,767	72,073
Total of 10 Largest Holdings				**2,378,943**
Total Fixed Income - Asset Allocation Basis				**12,466,752**

Absolute Return
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2010
(Dollar Amounts and Shares in Thousands)

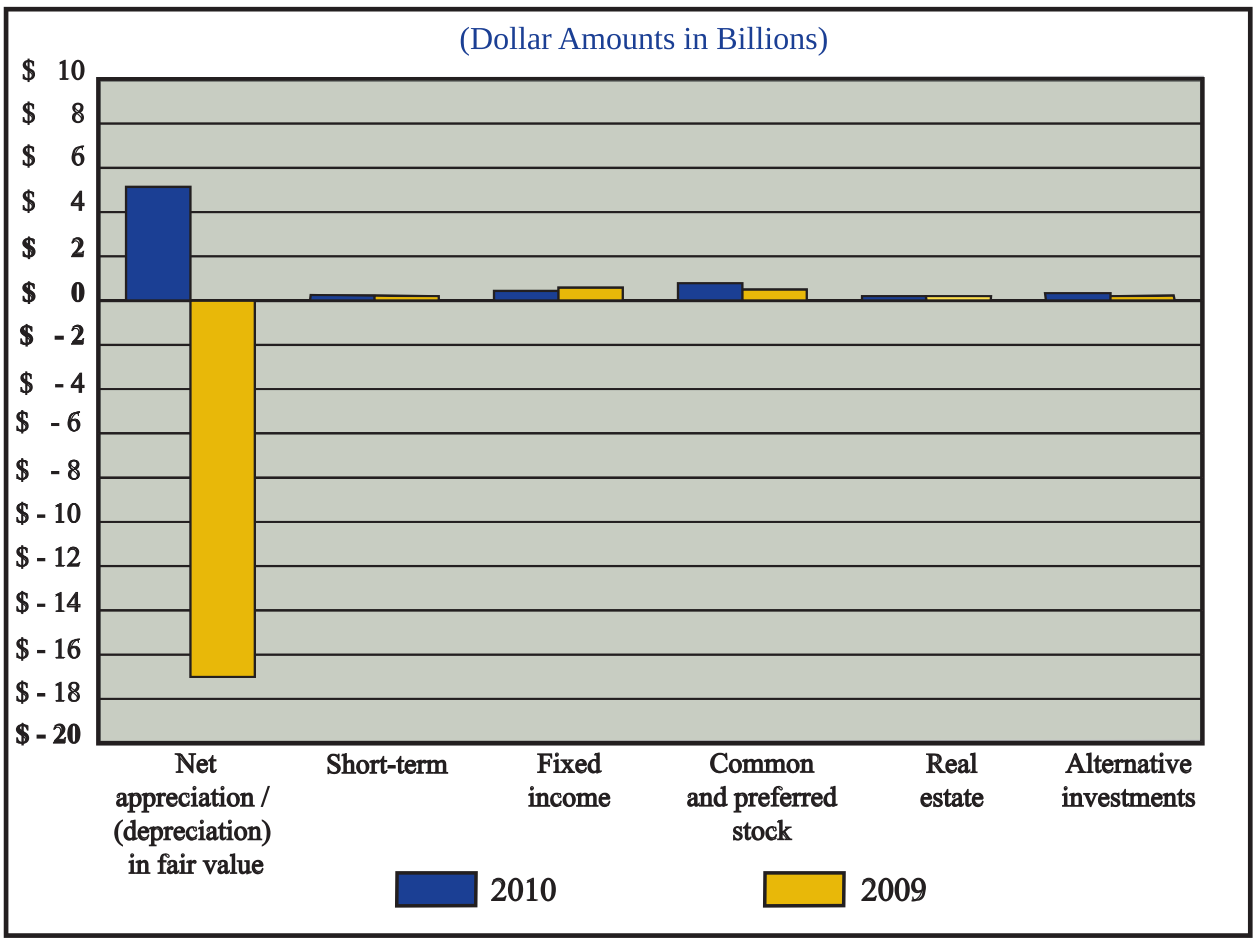
Description	No. of Shares	Fair Value ($)
Brigade Leveraged Capital Fund	712	888,283
Bridgewater Pure Alpha Fund II Ltd.	511	854,865
AQR Offshore Multi-Strategy Fund Ltd.	8	693,655
BlackRock Global Ascent Ltd.	500	677,196
First Quadrant Global Macro Fund Ltd.	5,511	605,556
Brevan Howard Fund, Ltd.	3,194	355,884
BlackRock Global Investors Capital Structure Investments Fund Ltd.	198	215,099
PIMCO Global Credit Opportunities Offshore Fund	161	194,150
Boston Company US Micro Cap Hedge Fund	150	191,104
PIMCO Absolute Return Strategy V Offshore Fund	118	185,635
Total of 10 Largest Holdings		**4,861,427**
Total Absolute Return - Asset Allocation Basis		**5,126,872**

Postemployment Healthcare Investments
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2010
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
PSERS Short-Term Investment Fund	Various	Various	110,049	110,049
M & T Bank Repurchase Agreement	07/01/10	0.010	21,900	21,900
M & T Bank Repurchase Agreement	07/01/10	0.010	21,395	21,395
M & T Bank Repurchase Agreement	07/01/10	0.010	13,894	13,894
GNMA Guaranteed REMIC 2004-29 Class B	08/16/29	5.000	4,307	4,481
FHLMC Multiclass 2522 Class TB	11/15/21	5.500	2,425	2,470
FHLMC Multiclass 2090 Class PK	10/15/13	5.490	2,349	2,451
FNMA Guaranteed REMIC 2003-24 Class BE	04/25/17	4.500	2,149	2,199
FHLMC Multiclass 2633 Class PD	08/15/16	4.500	2,000	2,071
Capital Auto Receivables Asset Trust 2007-SN2 Class A4	05/16/11	1.380	2,051	2,052
Total of 10 Largest Holdings				**182,962**
Total System Holdings - Postemployment Healthcare Investments				**222,284**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2010 and 2009
(Dollar Amounts in Thousands)

Investing Activities	**2010**	2009
Net appreciation (depreciation) in fair value of investments	**$ 5,141,204**	$ (17,008,184)
Short-term	**21,410**	58,958
Fixed income	**440,358**	587,007
Common and preferred stock	**784,431**	500,001
Real estate	**62,273**	92,515
Alternative investments	**179,116**	75,776
Total investment activity income (loss)	**$ 6,628,792**	$ (15,693,927)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2010 were $17.7 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the fiscal year ended June 30, 2010, the System earned $570,000 from the commissions recapture program. A list of the brokers receiving fees in excess of $100,000 during the fiscal year follows:

Summary Schedule of Brokers' Fees
(Cumulative Fiscal Year Amounts Exceeding $100,000)
Fiscal Year Ended June 30, 2010

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Jones & Associates	2,000,016	SG Securities	242,545
Goldman Sachs & Company	1,534,280	Jefferies & Company Incorporated	228,177
Instinet Corporation	880,125	Cantor, Fitzgerald & Company	218,379
Credit Suisse	854,678	ITG Securities	194,797
Merrill Lynch	866,825	BNY Convergex	181,832
UBS Securities	844,994	Edelweiss Capital Limited	177,343
Knight Securities	742,400	B-Trade Services, LLC	165,188
Citigroup	645,482	Exane Securities	146,466
JP Morgan Chase & Company	578,069	ABN AMRO	138,759
Deutsche Bank	536,690	Royal Bank of Scotland	120,608
Morgan Stanley & Company	517,746	Credit Agricole Cheuvreux	119,269
Macquaries Equities	485,632	Daiwa Securities	109,863
Nomura Securities International	406,039	Northland Securities Incorporated	102,458
Credit Lyonnais Securities	337,536	Cazenove Incorporated	101,003
Liquidnet Incorporated	245,135		

Professional Consultants
External Investment Advisors
As of June 30, 2010

Absolute Return Managers

- Acorn Derivatives Management Corporation
- AQR Capital Management, LLC
- BlackRock Financial Management, Inc.
- Boston Company Asset Management, LLC (The)
- Brevan Howard Master Fund, Ltd.
- Bridgewater Associates, LP
- Brigade Leveraged Capital Structures Offshore, Ltd.
- First Quadrant, LP
- FX Concepts, LLC
- Lazard Asset Management, LLC
- Pacific Investment Management Company
- Pareto Investment Management, Ltd.

U.S. Style-Oriented Small Cap Equity Managers

- Emerald Advisers, Inc.
- First Pacific Advisors, Inc.

U.S. Micro Cap Equity Managers

- Donald Smith & Company, Inc.
- NorthPointe Capital, LLC
- Oberweis Asset Management, Inc.
- Thomson Horstmann & Bryant, Inc.
- Turner Investment Partners, Inc.

Publicly-Traded Real Estate Securities Manager

- Security Capital Research & Management, Inc.

Non-U.S. Large Cap Equity Managers

- Baillie Gifford Overseas, Ltd.
- BlackRock Financial Management, Inc.
- Marathon Asset Management LLP
- Martin Currie, Inc.
- Mercator Asset Management, LP

Active Currency Program Manager

- Pareto Investment Management, Ltd.

Professional Consultants (Continued)

Non-U.S. Small Cap Equity Managers

- Acadian Asset Management, Inc.
- Batterymarch Financial Management, Inc.
- GlobeFlex Capital, LP
- Munder Capital Management
- Oberweis Asset Management, Inc.
- Pyramis Global Advisors, Inc.
- Wasatch Advisors, Inc.

Non-U.S. Emerging Markets Equity Managers

- Batterymarch Financial Management, Inc.
- Boston Company Asset Management, LLC (The)
- Templeton Investment Counsel, LLC
- Wasatch Advisors, Inc.
- Wellington Management Company, LLP
- William Blair & Company, LLC

Enhanced Commodity Index Managers

- Credit Suisse Asset Management, LLC
- NB Alternative Fund Management, LLC

Full Discretion Commodity Managers

- DB Advisors
- Schroders Investment Management North America, Inc.
- Wellington Management Company, LLP

U.S. Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- BlackRock Financial Management, Inc.
- Pacific Investment Management Company
- Western Asset Management Company

U.S. High Yield Fixed Income Manager

- MacKay-Shields Financial Corporation

Global Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- Fischer Francis Trees & Watts, Inc.
- Rogge Global Partners

Emerging Markets Debt Managers

- Stone Harbor Investment Partners, LP
- Franklin Templeton Investments

Global Treasury Inflation - Protected Securities Manager

- Bridgewater Associates, Inc.

Credit Opportunities Managers

- BlackRock Mortgage (Offshore) Investors, LP
- Brookfield Investment Management, Inc.
- LBC Credit Partners II, LP
- Mariner Investment Group, LLC
- Oaktree Loan Fund 2x, LP
- Sankaty Credit Opportunities IV, LP
- Sankaty Managed Account (PSERS), LP
- Sankaty Middle Market Opportunities Fund, LP
- TCW Credit Opportunities Fund, LP

Real Estate Advisors

- Charter Oak Advisors, Inc.
- GF Management, Inc.
- Grandbridge Real Estate Capital, LLC
- Grosvenor Investment Management U.S., Inc.
- L&B Realty Advisors, LLP

Real Estate Partnerships

- Apollo European Real Estate Fund III, LP
- Apollo Real Estate Finance Corporation
- AREFIN Co-Invest Corporation
- AvalonBay Value Added Fund I & II, LP
- Avenue Real Estate Fund Parallel, LP
- Beacon Capital Strategic Partners V, LP
- Berwind Investment Partnership IV, V & VI, LP
- Blackstone Real Estate Partners V & VI.TE.1, LP
- Blackstone Real Estate Partners Europe III, LP
- BPG Co-Investment Partnership, LP
- Broadway Partners Real Estate Fund II & III, LP
- Cabot Industrial Value Fund III, LP
- Carlyle Europe Real Estate Partners III-A, LP
- Carlyle Realty Partners III, IV & V, LP
- Centerline Diversified Risk CMBS Fund II, LLC
- Centerline High Yield CMBS Fund III, LLC
- Centerline Real Estate Special Situations Mortgage Fund, LLC
- Cornerstone Patriot Fund, LP
- CS Strategic Partners IV RE, LP
- CSFB Strategic Partners II & III RE, LP
- DLJ Real Estate Capital Partners II, III & IV, LP
- DRA Growth and Income Fund VI, LLC
- Fillmore West Fund, LP
- Five Arrows Realty Securities V, LP
- Fortress Investment Fund I, IV & V, LP
- Hines U.S. Office Value Added Fund, LP
- JPMCB Strategic Property Fund
- Legg Mason Real Estate Capital I & II, Inc.
- Lehman Brothers Real Estate I, II & III, LP
- LEM Real Estate Mezzanine Fund II, LP
- LF Strategic Realty Investors I & II, LLC
- Lubert-Adler Real Estate Fund II, III, IV, V & VI, LP
- Madison Marquette Retail Enhancement Fund, LP

Professional Consultants (Continued)

- MGPA Asia Fund III, LP
- MGPA Europe Fund III, LP
- Morgan Stanley Real Estate Fund II, LP
- Morgan Stanley Real Estate Fund IV Special Domestic, LP
- Morgan Stanley Real Estate Fund IV, V & VI Special International, LP
- Morgan Stanley Real Estate Fund V Special U.S., LP
- Morgan Stanley Real Estate Fund VII Global, LP
- O'Connor North American Property Partners I & II, LP
- Paladin Realty Latin America Investors III, LP
- Peabody Global Real Estate Partners, LP
- Prime Property Fund, LLC
- PRISA
- ProLogis North American Industrial Fund, LP
- RCG Longview Debt Fund IV, LP
- RCG Longview Equity Fund, LP
- RREEF America REIT II, Inc.
- Stockbridge Real Estate Fund I, II & III, LP
- Strategic Partners Value Enhancement Fund, LP
- UBS (US) Trumbull Property Fund, LP
- Westbrook Real Estate Fund I, LP
- Whitehall Street Real Estate V, VI, VII & VIII, LP
- William E. Simon & Sons Realty Partners, LP

Farmland Advisor

- Prudential Agricultural Group

Private Equity/Venture Capital Partnerships

- ABS Capital Partners II, LP
- Actis Emerging Markets 3, LP
- Adams Capital Management, LP
- Aisling Capital Partners II & III, LP
- Allegheny New Mountain Partners, LP
- Apax Europe VII, LP
- Baring Asia Private Equity Fund III & IV, LP
- BG Media Investors, LP
- Blue Point Capital Partners (B) I & II, LP
- Bridgepoint Capital II Partnership, LP
- Bridgepoint Europe IA, IIA, IIIA & IV, LP
- Bruckmann, Rosser, Sherrill & Company, LP
- Capital International Private Equity Fund V, LP
- Catterton Growth Partners, LP
- Catterton Partners V & VI, LP
- Cinven Fund (Fourth), LP (The)
- Clarity Partners I & II, LP
- Co-Investment 2000 Fund, LP (The)
- Co-Investment Fund II, LP (The)
- Credit Suisse First Boston Equity Partners, LP
- Credit Suisse First Boston International Equity Partners, LP
- Crestview Capital Partners I & II, LP
- Cross Atlantic Technology Fund I & II, LP
- CSFB Strategic Partners II, III-B & III-VC, LP
- CS Strategic Partners Fund IV & IV-VC, LP
- CVC Capital Partners Asia Pacific III, LP
- CVC European Equity Partners V, LP
- Deutsche European Partners IV, LP
- DLJ Merchant Banking Partners III, LP
- DLJ Strategic Partners, LP
- Dubin Clark Fund II, LP
- Edgewater Growth Capital Partners, LP
- Edgewater Private Equity Fund III, LP
- Edison Venture Fund III, LP
- Evergreen Pacific Partners I & II, LP
- First Reserve Fund XI & XII, LP
- Franklin Capital Associates III, LP
- Furman Selz Investors II & III, LP
- Graham Partners Investments (B), LP
- Green Equity Investors II, LP
- Greenpark International Investors III, LP
- Greenwich Street Capital Partners II, LP
- Halifax Capital Partners, LP
- Heritage Fund I, LP
- HSBC Private Equity Fund 6, LP
- Irving Place Capital Partners II & III, LP
- Jefferies Capital Partners IV, LP
- Jefferson Partners Fund IV (PA), LP
- KBL Healthcare Ventures, LP
- KKR 2006 Fund, LP
- KRG Capital Fund II, III & IV, LP
- Landmark Equity Partners II, III, IV, V, XIII & XIV, LP
- Landmark Mezzanine Partners, LP
- Lehman Brothers Communications Investors, LP
- Lehman Brothers Merchant Banking Partners II, LP
- Lexington Capital Partners I, LP
- Lindsay, Goldberg & Bessemer, LP
- LLR Equity Partners I, II & III, LP
- Milestone Partners II & III, LP
- Morgan Stanley Dean Witter Capital Partners IV, LP
- Navis Asia Fund V, LP
- NEPA Venture Fund II, LP
- New Mountain Partners I & III, LP
- New York Life Capital Partners, I, II, III & IV, LP
- Nordic Capital VII Beta, LP
- Novitas Capital I & II, LP
- P/A Fund (The)
- PAI Europe III, IV & V, LP
- Palladium Equity Partners II-A, LP
- Partners Group Secondary 2008, LP
- Permira IV, LP
- Perseus-Soros BioPharmaceutical Fund, LP
- Platinum Equity Capital Partners-A I & II, LP
- PNC Equity Partners I & II, LP
- Providence Equity Partners VI, LP
- Psilos Group Partners III, LP
- Quadrangle Capital Partners I & II, LP
- Quaker BioVentures I & II, LP
- SCP Private Equity Partners I & II, LP
- StarVest Partners I & II, LP
- Sterling Capital Partners, LP
- Sterling Venture Partners, LP
- TDH III, LP
- Tenaya Capital IV-P & V, LP
- TL Venture III, LP
- TPG Partners II, V & VI, LP
- Trilantic Capital Partners IV, LP
- U.S. Equity Partners II, LP
- Wicks Communications & Media Partners, LP

Professional Consultants (Continued)

- Willis Stein & Partners, LP

Private Debt Partnerships

- Avenue Asia Special Situations Fund II, III & IV, LP
- Avenue Europe Special Situations Fund, LP
- Avenue Special Situations Fund II, III, IV & V, LP
- Cerberus Institutional Partners, LP (Series Two, Three and Four)
- Gleacher Mezzanine Fund I & II, LP
- Gold Hill Venture Lending 03-A, LP
- GSC Partners CDO Investors III & IV, LP
- GSC Recovery II & III, LP
- NYLIM Mezzanine Partners Parallel Fund I & II, LP
- OCM Opportunities Fund VII & VII-B, LP
- Versa Capital Fund I & II, LP
- Windjammer Senior Equity Fund III, LP

Public Market Emerging Investment Program Managers

- AH Lisanti Capital Growth, LLC
- Ativo Capital Management, LLC
- Biondo Group, LLC (The)
- Conestoga Capital Advisors
- Denali Advisors, LLC
- EDMP, Inc.
- Hanseatic Management Services, Inc.
- Harvest Fund Advisors, LLC
- Hellman, Jordan Management Company, Inc.
- John Hsu Capital Group, Inc.
- Opus Capital Group, LLC
- Piedmont Investment Advisors, LLC
- Pugh Capital Management, Inc.
- Shah Capital Management, Inc.
- Westwood Global Investments, LLC
- Zacks Investment Management, Inc.

Alternative Investment Consultant

- Portfolio Advisors, LLC

Custodian and Securities Lending Agent

- The Bank of New York Mellon Corporation

Investment Accounting Application Service Provider

- Financial Control Systems, Inc.

Investment Evaluator and General Investment Consultant

- Wilshire Associates, Inc.

Proxy Voting Agent

- Glass, Lewis & Co., LLC

Real Estate Investment Consultant

- Courtland Partners, Ltd.

Hedge Fund Consultant

- Aksia, LLC